

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 90-2-E - ORDER NO. 90-337 ✓
APRIL 30, 1990

IN RE: Adjustment of Base Rates for Fuel)	ORDER APPROVING
Costs for Carolina Power and Light)	BASE RATES FOR
Company)	FUEL COSTS

On March 21, 1990, the Public Service Commission of South Carolina held a public hearing on the issue of the recovery of the costs of fuel used in electric generation by Carolina Power and Light Company (the Company) to provide service to its retail electric customers. The procedure followed by the Commission is set forth in S.C. Code Ann., §58-27-865 (Cum. Supp. 1989). The statute provides for a six-month review; however, due to certain continuances granted by the Commission, this review is from March 1988 through January 1990.

At the March 21, 1990 hearing, William F. Austin, Esquire and Robert W. Kaylor, Esquire, represented the Company; Nancy J. Vaughn, Esquire, represented the Intervenor, the Consumer Advocate of South Carolina; Sarena D. Burch, Esquire, Staff Counsel, represented the Commission Staff. The record before the Commission consists of the testimony of three witnesses on behalf of the Company, three witnesses on behalf of the Commission Staff, and four (4) exhibits.

Based upon the evidence of the record, the Commission makes the following findings of fact and conclusions of law:

1. The record of this proceeding indicates that for the period from March 1988 through January 1990 the Company's actual total fuel costs for its electric operations amounted to \$944,702,298.

2. Staff reviewed and compiled a percentage generation mix statistic sheet for the Company's fossil, nuclear and hydraulic plants for March 1988 through January 1990. The fossil generation ranged from a high of 83% in November 1989 to a low of 37% in May 1989. The nuclear generation ranged from a high of 60% in May 1989 to a low of 14% in November 1989. The percentage of generation by hydro ranged from 1% to 4% for this period.

3. During the March 1988 through January 1990 period, coal suppliers delivered 17,610,516 tons of coal at a weighted average received cost per ton of \$44.94. The Commission Staff's audit of the Company's actual fuel procurement activities demonstrated that the average monthly received cost of coal varied from \$42.11 per ton in March 1989 to \$49.12 per ton in December 1989.

4. The Commission Staff conducted an extensive review and audit of the Company's fuel purchasing practices and procedures for the subject period. The Staff's accounting witness, Curtis Price, testified that the Company's fuel costs were supported by the Company's books and records.

5. The Commission recognizes that the approval of the currently effective methodology for recognition of the Company's

fuel costs requires the use of anticipated or projected costs of fuel. The Commission further recognizes the fact inherent in the utilization of a projected average fuel cost for the establishment of the fuel component in the Company's base rates that variations between the actual costs of fuel and projected costs of fuel would occur during the period and would likely exist at the conclusion of the period. Section 58-27-865, supra, establishes a procedure whereby the difference between the base rate fuel charges and the actual fuel costs would be accounted for by booking through deferred fuel expenses with a corresponding debit or credit.

6. The record of this proceeding indicates that the comparison of the Company's fuel revenues and expenses for the period March 1988 through March 1990 produces an under-recovery of \$9,740,930 through March 1990. This under-recovery represents approximately 6.08% of the fuel costs allocated to the Company's South Carolina retail operations for the period April 1988 through March 1990.

7. Company witness, Dale Bouldin, Manager - Rate Development and Administration, proposed that the Commission adjust the fuel component in the base rates from the presently approved 1.425 cents/KWH to 1.675 cents/KWH for the six (6) months ending September 30, 1990. Mr. Bouldin testified that on December 14, 1988, CP&L and American Electric Power Co., Inc. (AEP) signed an agreement for the strengthening of transmission interconnections between the two utilities and the purchase of 250 MW of electric generating capacity over a 20 year period beginning January 1,

1990. The capacity purchase is a firm unit power purchase from AEP's Rockport Unit 2 generating station.

8. CP&L began purchasing power under the terms of the agreement on January 1, 1990. Therefore, the fuel portion of the costs associated with the purchase are reflected for a portion of the historical and all of the projected test period. Although CP&L is incurring capacity costs with the purchase, these costs are not being requested for inclusion in rates at this time.

9. The average fuel cost included in the total cost of this purchase in January was 1.24 cents per KWH. This compares with the 1.832 cents per KWH fuel expense which CP&L incurred for its own fossil steam units during this period. In the projected period the AEP purchase was included at an average rate of 1.24 cents per KWH. The power purchased from AEP will allow CP&L to displace power from its own fossil generating units which have higher fuel costs, thus providing a savings to CP&L's customers.

10. The Company's projected average fuel expense for the April 1990 through September 1990 period is 1.528 cents per KWH. However, when adjusted by the under-recovery of 0.356 cents per KWH through March 1990, the total fuel costs which is 1.884 cents per KWH, would be required to produce virtually no cumulative variance between the average projected fuel cost and actual fuel costs at the conclusion of the six months period ending September 30, 1990.

11. The Commission's Staff witness William O. Richardson, Utilities Engineer Associate, demonstrated that the projected fuel cost for the six-month period ending September 30, 1990 and the

cumulative under-recovery of \$9,740,930 would be recovered by the establishment of a fuel component of 1.884 cents per KWH in the base rates. The Commission Staff recommended that the fuel component in the base rates be set at 1.675 cents per KWH. This lower recommendation is in keeping with the spirit of the statute to allow utilities to recover prudently incurred fuel cost "in a manner that tends to insure public confidence and minimize abrupt changes in charges to consumers".

12. Based on the testimony of Mr. Coats and Mr. Sheely, the Commission finds that as to the outages studied by the witnesses, the Company has not acted unreasonably. The Commission finds that CP&L has taken reasonable steps to safeguard against error and has in fact taken further steps in the institution of its "Design Basis Reconstitution Program". The Commission finds that although there were instances of short outages caused by personnel errors, in each case a prompt corrective action was taken and disciplinary action was taken where it was deemed appropriate.

13. At the end of the hearing, the Consumer Advocate made a five-part Motion concerning coal contracts. First, the Consumer Advocate alleged that the Company entered into certain contracts without fully canvassing the market. CP&L, according to the Consumer Advocate, performed telephone solicitations and did not follow its own policies concerning bidding. The Consumer Advocate stated that the Company should be required to demonstrate that it has the lowest cost coal available and if the Company cannot demonstrate this, the Commission should disallow any costs which

were above the lowest reasonable costs available to the Company.

CP&L, in response, asserted that the Company did solicit bids and there is no requirement as to the number of bids that need to be solicited. It was a competitive bidding process. CP&L's testimony explains the reasons for the bids that were solicited. As to Supplier No. 6637, the plant receiving this specific coal has a requirement for a higher grind. That is a characteristic which is not readily available in many areas and as a result one of the things that CP&L does is narrow down the options based upon its historic information. As to Supplier No. 8915, the Company did not send out a formal solicitation prior to renewing its contract with that supplier. CP&L renewed the contract with some slight improvements in terms because it was at the time at a price very competitive with the spot market. Nothing that CP&L had looked at or seen when they would start talking about long-term commitments by suppliers would bring them down to a level as low as the current spot markets.

The Commission finds that there should be no disallowance of costs. CP&L's testimony set forth the reasons for the bids that were solicited. There is no minimum number of bids that need be solicited. CP&L's policies state that they must take bids whenever practicable; therefore, bidding is not mandatory.

14. The second point deals with owning or leasing rail equipment. The Consumer Advocate asked that the Commission order CP&L to aggressively pursue this issue with Norfolk Southern and that CP&L should be required to conduct an economic analysis which

compares the cost of owning or leasing equipment with the cost of using the railroad's equipment.

CP&L argued with respect to the Consumer Advocate's second point that there is no basis for CP&L to buy rail cars at this time to try to plan for certain contingencies such as a few shipments being missed during cold weather. CP&L is investigating the possibility of buying cars, but CP&L does not believe it should be ordered to go out and buy cars or lease equipment from any particular supplier. CP&L has hired an outside consultant to examine the issue of whether or not it is economically feasible for CP&L to buy or lease its own rail cars.

The Commission finds that CP&L should not be ordered to purchase or lease rail equipment but should be ordered to continue to study the issue. CP&L has hired a consultant to examine this issue to see whether it is economically feasible for CP&L to buy or lease rail cars and this is the most prudent course of action for CP&L to take at this time.

15. The Consumer Advocate's third point is in respect to Supplier No. 8265, which is CP&L's highest priced coal supplier. CP&L has had recommendations from a consultant to do a number of things with respect to that contract, one of which was to breach the contract. The Consumer Advocate suggests that CP&L should be required to develop a plan to reduce the cost of coal under this contract, considering such options as price renegotiation, contract termination, buying out the contract, or a court ordered reformation of the contract. The Consumer Advocate asserts that

the Commission should disallow the costs that are above the market price of coal.

As to the Consumer Advocate's third point concerning Supplier No. 8265, CP&L stated that CP&L's breaking the contract could cause CP&L to incur more cost to the ratepayers due to the possibility of a lawsuit by the supplier against CP&L. CP&L asserts that there is no basis in the record to disallow any cost. The coal in question is a very good low sulfur coal. The price was capped which was very advantageous to CP&L. CP&L testified that the price of coal under this contract probably did exceed what eventually turned out to be the market; however, at the time CP&L's projections were made, this type of coal was expected to rise considerably in price because of acid rain and the low sulfur nature of the coal. In fact it did not turn out that way because there was no acid rain legislation at that time as was being discussed.

Again, the Commission finds that there should be no disallowance of costs. CP&L has not ignored the issue but obtained recommendations from a consultant as to the contract in question involving Supplier No. 8265. CP&L was not imprudent in entering into this contract under the particular conditions existing at that time, which CP&L has discussed in its testimony.

16. The Consumer Advocate also requested that CP&L file a report with the Commission on the fraudulent overcharges by Supplier No. 8257 that advises the Commission of what has taken place and what the Company is doing to prevent such problems from occurring in the future.

CP&L has no objection, as to the Consumer Advocate's fourth point, to fully advising the Commission on the status of the audit that CP&L is conducting with respect to the fraudulent overcharges from Supplier No. 8257. CP&L will supply any information that the Commission wishes on this matter.

The Commission directs CP&L to submit a status report on the fraudulent overcharges within sixty (60) days of the date of this Order.

17. The last point raised by the Consumer Advocate was that it may benefit CP&L to have a person with mining experience on its staff to review its cost plus contracts and to review the invoices that it is receiving from the companies to ensure that a problem such as it had with Supplier No. 8257 does not reoccur.

With respect to the Consumer Advocate's fifth recommendation, CP&L does not believe that at this time it should be required to hire a person with mining experience. CP&L stated that the type of personnel it has on staff, in addition to the consulting firm that it is using on this issue, is sufficient. A person with mining experience would also need to have other capabilities such as contractual administration capability and CP&L believes that the best way to handle the situation now is to use the employees it has now in conjunction with the consulting firm it is using.

The Commission finds that it is not necessary to order CP&L to hire someone with mining experience. The Commission agrees with CP&L that the trained personnel CP&L has on staff in addition to the consulting firm CP&L is using is sufficient.

18. The Commission has carefully reviewed the proposals advanced by the Company and the Commission Staff in regard to an adjustment to the fuel component in the Company's base rates. Based upon our full review of the record in this proceeding, the Commission is of the opinion, and so finds, that the recommendations as proposed by the Company and the Staff are fair and reasonable and should herein be approved, effective commencing with the Company's April 1990 billings. Based upon the projected fuel costs and energy sales through the next six months, the operation of a fuel component of 1.675 cents per KWH will produce a cumulative under-recovery of fuel cost in an amount of \$5,694,725 for the period ending September 30, 1990. The Commission considers that the adoption of this fuel cost level herein will serve to encourage the Company to continue its efforts in the exercise of reasonable prudence and efficiency in its fuel purchasing practices.

IT IS THEREFORE ORDERED:

1. That a fuel component of 1.675 cents per KWH be, and hereby is, approved for Carolina Power and Light Company, effective on bills rendered on and after April 1, 1990.

2. That Carolina Power and Light Company file with the Commission for approval, within fifteen (15) days of the date of this Order, rate schedules designed to incorporate our findings herein and an Adjustment for Fuel Costs, as demonstrated in Appendix A, attached hereto and incorporated by reference.

3. That the Company comply with the Notice requirements set

forth in S.C. Code Ann., Section 58-27-865 (A) (Cum. Supp. 1989).

4. That the Company continue to file the monthly reports previously required in this Docket.

5. That the Company account monthly to the Commission for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit.


6. That the Company submit monthly reports to the Commission of fuel cost and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

7. That the Company should submit a status report on the fraudulent overcharges of Supplier No. 8257 within 60 days of the date of this Order.

8. That the Company should continue to study the issue of purchasing or leasing rail equipment.

9. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


ACTING Chairman

ATTEST:


Deputy Executive Director

(SEAL)

CAROLINA POWER AND LIGHT COMPANY

ADJUSTMENT FOR FUEL COSTS

APPLICABILITY

This adjustment is applicable to and is a part of the Utility's South Carolina retail electric rate schedules.

The Public Service Commission has determined that the costs of fuel in an amount to the nearest one-thousandth of a cent, as determined by the following formula, will be included in the base rates to the extent determined reasonable and proper by the Commission for the succeeding six months or shorter period:

$$F = \frac{E}{S} + \frac{G}{S_1}$$

Where:

F = Fuel cost per kilowatt-hour included in base rate, rounded to the nearest one-thousandth of a cent.

E = Total projected system fuel costs:

- (A) Fuel consumed in the Utility's own plants and the Utility's share of fuel consumed in jointly owned or leased plants. The cost of fossil fuel shall include no items other than those listed in Account 151 of the Commission's Uniform System of Accounts for Public Utilities and Licensees. The cost of nuclear fuel shall be that as shown in Account 518 excluding rental payments on leased nuclear fuel and except that, if Account 518 also contains any expense for fossil fuel which has already been included in the cost of fossil fuel, it shall be deducted from this account.

Plus

- (B) Purchased power fuel costs such as those incurred in unit power and Limited Term power purchases where the fuel costs associated with energy purchased are identifiable and are identified in the billing statement.

Plus

- (C) Interchange power fuel costs such as Short Term, Economy, and other where the energy is purchased on economic dispatch basis.

Energy receipts that do not involve money payments such as Diversity energy and payback of storage energy are not defined as purchased or interchange power relative to this fuel calculation.

Minus

- (D) The cost of fuel recovered through intersystem sales including the fuel costs related to economy energy sales and other energy sold on an economic dispatch basis.

Energy deliveries that do not involve billing transactions such as Diversity energy and payback of storage are not defined as sales relative to this fuel calculation.

S = Projected system kilowatt-hour sales excluding any intersystem sales.

G = Cumulative difference between jurisdictional fuel revenues billed and fuel expenses at the end of the month preceding the projected period utilized in E and S.

S₁ = Projected jurisdictional kilowatt-hour sales for the period covered by the fuel costs included in E.

The appropriate revenue related tax factor is to be included in these calculations.

THE FUEL COST F AS DETERMINED BY SOUTH CAROLINA PUBLIC SERVICE COMMISSION'S ORDER NO. 90-337 FOR THE PERIOD APRIL 1990 THROUGH SEPTEMBER 1990 IS 1.675 CENTS PER KWH.